.72msu Office of the
1991 Montana State
University
financial-
compliance audit

Office of the Legislative Auditor

State of Montana

Report to the Legislature

May 1992

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

STATE DOCUMENTS COLLECTION

SEP 0 2 1992

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Montana State University

This report contains recommendations which address the following issues:

- Improper transfer of donations to the university's foundation amounting to $50,000.
- The university does not have a system to monitor license and patent revenue.
- Grants and contracts financial management and control system.
- Compliance with federal regulations.

PLEASE RETURN

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

91-5

3 0864 1004 7557 6

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Greg Jergeson, Chairman	Representative John Cobb, Vice Chairman
Senator Tom Keating	Representative Larry Grinde
Senator Paul Svrcek	Representative Mike Kadas
Senator Gene Thayer	Representative Robert Pavlovich

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1991

Montana State University

Members of the audit staff involved in this audit were Jeane Carstensen, Rebecca Dorwart, John Fine, Wayne D. Guazzo, Scott Hoversland, Charles V. Jensen, Wayne Kedish, Victoria Murphy, Charles Nemec, and Francee Ward.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

ISLATIVE AUDITOR:
SCOTT A. SEACAT

AL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

May 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State University for fiscal years 1989-90 and 1990-91. The report includes recommendations regarding the improper transfer of donations to the university's foundation, and establishing a monitoring system for license and patent revenue. The university's written response to audit recommendations is included in the back of the audit report.

We thank the president and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Table of Contents

List of Tables iii

Appointed and Administrative Officials iv

Summary of Recommendations v

Introduction

Introduction 1

Background 1

Prior Audit Recommendations

Prior Audit Recommendations 3

Findings and Recommendations

Donations 4

Patents and Licenses 5

Schedule of Federal Financial Assistance 6

Already Received Purchase Orders/Emergency Purchase Report 9

Equipment Inventory 10

Accounting Issues 11
- Improper Revenue and Expenditure Abatements ... 11
- Prior Year Expenditure Adjustments 13
- Advance Ticket Sales 14

Compliance with Federal Regulations 14
- Federal Property Records 15
- Matching System 16
- Termination Leave Pool 17
- Change in Principal Investigator 18

Disclosure Issue

Deficit Spending 20

Independent Auditor's Report and University Financial Statements

Summary of Independent Auditor's Report 22

Independent Auditor's Report 23

Balance Sheet as of June 30, 1991 24

Statement of Changes in Fund Balances
Year Ended June 30, 1991 28

Statement of Changes in Fund Balances
Year Ended June 30, 1990 30

Table of Contents

	Statement of Current Funds Revenues, Expenditures, and Other Changes Year Ended June 30, 1991	32
	Statement of Current Funds Revenues, Expenditures, and Other Changes Year Ended June 30, 1990	33
	Notes to Financial Statements	34
University Response	Montana State University	46

List of Tables

Table 1	Schedule of Federal Assistance Misstatements	8
Table 2	Schedule of Improper Abatements	12

Appointed and Administrative Officials

Board of Regents of Higher Education

		Term Expires
Stan Stephens, Governor*		1992
Nancy Keenan, Superintendent of Public Instruction*		1992
Dr. John M. Hutchinson, Commissioner of Higher Education*		
William Mathers, Chairman	Miles City	1994
Tom Topel	Billings	1993
Cordell Johnson	Helena	1996
Kermit R. Schwanke	Missoula	1997
Paul Boylan	Bozeman	1998
Jim Kaze	Havre	1999
Kathey S. Rebish, Student Regent	Missoula	1992

*Ex officio members

Commissioner of Higher Education

Dr. John Hutchinson	Commissioner
John H. Noble, Jr.	Deputy Commissioner for Management & Fiscal Affairs (through December 1991)
Rod Sundsted	Acting (effective January 1992)
Laurie Neils	Director of Budget and Accounting

Montana State University

Dr. Michael Malone	President
Dr. James Isch	Vice President for Administration
Dr. Robert Swenson	Vice President for Research
Dr. Kathleen Chafey	Acting Vice President for Academic Affairs
Dr. Rolf Groseth	Acting Vice President for Student Affairs

Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Recommendation #1	We recommend the university properly account for its donations.	5
	University Response: Concur. See page 47.	
Recommendation #2	We recommend the university establish a system to monitor the contract with RDI and the resulting income.	6
	University Response: Concur. See page 47.	
Recommendation #3	We recommend the university provide accurate federal financial assistance information to the Governor's Office.	9
	University Response: Concur. See page 47.	
Recommendation #4	We recommend the university continue to limit the use of emergency purchase reports to emergency situations as required by state policy.	10
	University Response: Concur. See page 48.	
Recommendation #5	We recommend the university ensure physical inventory reconciliations are completed as required by state accounting policy.	11
	University Response: Concur. See page 48.	
Recommendation #6	We recommend the university properly record revenue and expenditures in accordance with state accounting policy.	12
	University Response: Concur. See page 49.	
Recommendation #7	We recommend the university properly use the prior year expenditure control accounts.	14
	University Response: Concur. See page 49.	

Summary of Recommendations

Recommendation #8	We recommend the university record revenue collected for advance ticket sales when it is earned.	14
	University Response: Concur. See page 49.	
Recommendation #9	We recommend the university identify on its property accounting system equipment used as match for federal grants and equipment purchased in part with federal funds.	16
	University Response: Concur. See page 50.	
Recommendation #10	We recommend the university establish a procedure to verify that all expenditures are used only once as match for federal programs as required by federal regulation.	17
	University Response: Concur. See page 50.	
Recommendation #11	We recommend the university document the cost basis for termination pool charges to grants and contracts.	18
	University Response: Concur. See page 51.	
Recommendation #12	We recommend the university properly notify the federal granting agencies when changes occur in key personnel as required by federal regulations.	19
	University Response: Concur. See page 51.	

Introduction

We performed a financial-compliance audit of Montana State University for the two fiscal years ended June 30, 1991. The objectives of the audit were to:

1. Determine if the university complied with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal accounting controls of the university.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial statements present fairly the financial position and results of operations of the university for the two fiscal years ended June 30, 1991.

This report contains 12 recommendations which address areas where administrative and accounting controls, compliance with laws and regulations, and accountability can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the university programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

Background

Montana State University was founded on February 15, 1893, as the Agricultural College of the state of Montana. The school was later named Montana State College and on July 1, 1965, it became Montana State University. The university is a land-grant institution as authorized by the Morrill Act of 1862 and receives part of its support from land-grant income as well as from state appropriations, student fees, and federal and private grants.

The public service function of the university originated in the establishment of the Extension Service in 1915, created under

the federal Smith-Lever Act, and state legislation. Financial support for the Extension Service's operation comes from county, state, and federal governments, as well as from private grants. County agents and specialists are an integral part of the university and channel information to Montanans to aid in solving home, farm, and community problems. In January 1990, the Fire Service Training School was transferred from the Board of Public Education to the university's Extension Service.

The Agricultural Experiment Station is also an integral part of the university. It was established in 1893 by the Montana Legislature under authorization provided by the federal Hatch Act of 1887. The station receives federal funds under the Hatch Act, as well as state appropriations, federal and private grants, and funds from the sale of surplus agricultural products. The Agricultural Experiment Station has eight locations in the state, in addition to the Bozeman campus. The station components are devoted to solving agricultural and land reclamation problems of local, regional, and national concern. The distribution of research centers is such that the peculiarities of local or area soil, water, and climate can be considered.

Prior Audit Recommendations

Prior Audit Recommendations

Our financial-compliance audit of the university for the two fiscal years ended June 30, 1989, contained 15 recommendations. The university implemented nine of the recommendations, partially implemented five, and did not implement one recommendation. The university significantly improved its grants and contracts management system since the prior audit. In addition, it began implementation of procedures to improve control over already received purchase requisitions through revision of its policies and staff training. However, based on our audit work we believe continued improvement is warranted for four of the partially implemented recommendations. The other recommendation partially implemented relates to a General Fund reversion discussed below. The recommendation not implemented relates to the grants and contracts match system discussed on page 16.

In a three-part recommendation from the previous audit, we recommended the university revert $207,063 to the General Fund, comply with state law related to the use of non-General Fund money, and record expenditures only when a valid obligation exists. The university did not concur with the recommendation related to the General Fund Reversion and did not revert the money to the General Fund. However, the university did implement the other two parts of the recommendation.

Findings and Recommendations

Donations

The university improperly transferred donations that it received from a private donor to the Montana State University Foundation (foundation). The foundation is a private, nonprofit, corporation established to raise money to promote educational objectives at the university.

In February 1991, the university received a $50,000 donation for the College of Engineering. The check specified Montana State University as the payee. The donor requested the funds be used for the purchase of engineering equipment. The university gave the donated money to the foundation without recording the transaction in its financial records.

Donations made to the university are university assets and should be recorded as an asset and revenue in the university's financial records. The university may not donate assets to the foundation, but may contract with the foundation to administer selected university assets. However, if the university elects to have the foundation administer its donated funds, the university should record the asset on its records and monitor the foundation's activities with regard to the asset.

University officials stated the donor should have made the check payable to the foundation, because the money was provided in response to the foundation's equipment campaign. However the transmittal letter included with the check states "I am pleased to present this check for $50,000 to the College of Engineering to be used for the purchase of equipment for the engineering laboratory." In addition the check was written to "Montana State University." University officials believe the donor intended the donation to go to the foundation; however, nothing in the letter or any other correspondence from the donor indicated an intent for the funds to be deposited in the foundation.

The university should record revenue for donations received and an asset for university moneys administered by the foundation. The university should also record expenditures of its moneys administered by the foundation on its accounting records in each fiscal year based upon expenditure reports received from the foundation.

Recommendation #1

We recommend the university properly account for its donations.

Patents and Licenses

The Research and Development Institute (RDI) is a nonprofit corporation established in 1980 to serve as the university's patent development and licensing management organization. Based on an agreement between the university and RDI, the university assigns new inventions to RDI for patent development and licensing. The agreement requires that, after RDI deducts direct expenses and 10 percent for indirect expenses, 50 percent of the patent and royalty revenue will be distributed through an application process to the university for research, and 50 percent will be distributed to the inventor.

The university does not have a system to monitor the contract with RDI and the resulting income. The university should monitor RDI's management of patents and licenses, and the resulting income since the university is entitled to a portion of the income. At the time we reviewed the system for monitoring patents and licenses the university did not know what patents and licenses had been assigned to RDI. The university could not provide us with a list of patents administered by RDI without asking RDI for the information. Also the university had not received financial statements from RDI as required by the agreement between RDI and the university. Financial statements would provide the university with some of the information necessary to monitor RDI's operations.

In addition RDI has not been audited. Without an audit the university does not know whether amounts presented on RDI's financial statements are fairly stated. The university's inability to provide us with a list of patents administered by RDI, or financial statements showing the annual financial activity of RDI, indicate the university has not been adequately monitoring

to ensure it receives all revenue to which it is entitled under its contract.

Officials indicated that although the university has not been monitoring RDI, it will establish a monitoring system. Officials estimated that the university has received $350,000 from RDI as its share of license or patent revenue for research grants since 1980.

Recommendation #2

We recommend the university establish a system to monitor the contract with RDI and the resulting income.

Schedule of Federal Financial Assistance

University personnel prepare a Schedule of Federal Financial Assistance each fiscal year. The schedule shows expenditures of federal funds by type of assistance, listed according to a catalog number assigned by the federal government. The Governor's Office compiles schedules from each state agency into a single Schedule of Federal Financial Assistance for the state of Montana. We express an opinion on the statewide schedule of federal financial assistance in our biennial Single Audit report.

Federal regulations require recipients of federal assistance to report all federal financial assistance expended each fiscal year. The regulation requires the state, including the university, to accurately report the total amount of federal expenditures paid. The university is required by the regulation to report the total amount of loans outstanding rather than expenditures for federal loan programs, such as the Perkins Loan program. The reported expenditures and loans outstanding must be supported by the state's accounting records. During the audit we noted the following errors in the university's federal assistance amounts as reported to the Governor's Office.

-- The university reported federal revenues rather than expenditures for four federal programs on its fiscal year 1989-90 report.

-- For fiscal year 1989-90 the university reported the federal capital contributions for Perkins Loans and Nursing Student Loans rather than the amount of loans outstanding.

-- The university did not include on its grant schedule federal money received as subgrants from state agencies or other governments for fiscal year 1989-90 or 1990-91. All federal moneys expended, regardless of whether the moneys are passed through other state agencies must be reported as federal assistance.

-- In fiscal year 1990-91 the university omitted federal grants received from three different federal agencies totalling $679,970. University officials indicated the expenditures were omitted because of a programming error.

Table 1 below identifies the federal programs and the amounts misstated in the university's report to the Governor's Office.

Table 1

Schedule of Federal Assistance Misstatements

CFDA #	Program Description	1989-90 Overstated (Understated)
84.063	Pell Grant Program	$ (253,057)
84.007	Supplemental Educational Opportunity Grants	157,854
84.069	Grants to States for State Student Incentives	64,692
84.033	College Work-Study Program	81,966
84.038	Perkins	(8,228,578)
13.364	Nursing Student Loans	(879,543)
66.500	Environmental Protection Agency	(74,172)
	Other subgrants from state agencies[1]	

CFDA #	Program Description	1990-91 Overstated (Understated)
15.804	Water Resources Research Institute	$ (87,929)
15.805	Water Resources Research Institute	(15,683)
11.303	Economic-Technical Assistance	(99,552)
66.999	Environmental Protection Agency	(127,015)
66.505	Environmental Protection Agency	(48,120)
66.500	Environmental Protection Agency	(277,444)
66.419	Environmental Protection Agency	(119,602)
84.007	Supplemental Educational Opportunity Grants	42,943
	Other subgrants from state agencies[1]	

[1] The university was unable to provide the CFDA number and the amount of misstatements for other subgrants from state agencies.

Source: Compiled by the Office of the Legislative Auditor.

University officials indicated that the instructions given them by the Governor's Office, who is responsible for compiling the schedules for the state, were vague and did not address many of the concerns noted above. The university has been required to prepare Schedules of Federal Financial Assistance in each of the last ten years. If the university needs additional clarification regarding which items to include, it should work with the Governor's Office to ensure the schedule is properly prepared. University officials said they have submitted corrected federal financial assistance information to the Governor's Office for some of the errors noted on page 7.

Recommendation #3

We recommend the university provide accurate federal financial assistance information to the Governor's Office.

Already Received Purchase Orders/Emergency Purchase Report

In the prior audit we noted extensive use of "Already Received Purchase Requisitions" (ARPR) and recommended university management limit the use of already received purchase requisitions to emergency situations as required by state policy. ARPR's are used for purchases which are typically made outside of the normal purchasing procedures because of an urgent need for specific goods or services. State accounting policy requires that exigency purchases (i.e., emergency, requiring immediate action) shall be limited to those supplies necessary to meet the exigency and should be based on extreme need.

We tested 35 ARPR's from June 1991 and noted that 21 did not meet the emergency criteria required by state policy. The purchases ranged from $5 to $9,906. For example, a copier was purchased for $269 and the reason given was because the old one was wearing out. The university maintains many copy machines on campus. The fact that one machine was wearing out normally would not constitute an emergency situation requiring the bypassing of routine purchasing procedures.

A university official said the university implemented a new policy in January of 1991 in an attempt to limit the use of ARPR's to emergency situations. The new policy changed the name from ARPR to Emergency Purchase Report (EPR). It included measures to educate department personnel on the use of the EPR, and it requires that statistics be maintained on the number of EPR's processed by each department. As a result, the university has decreased its use of EPR's from over 1,100 in fiscal year 1989-90 to under 800 in fiscal year 1990-91. University officials indicated that they made greater progress in the last six months of fiscal year 1990-91 and reduced the number of

EPRs by 50 percent over the same period in the previous year. Based on our findings the university should continue in its efforts to limit the use of EPR's to emergency purchases. Many of the "emergency" situations could have been avoided with prior planning by university personnel. After we notified university management of this issue, we observed the university further restricted the use of these documents by requiring that EPR's be approved by the university's controller.

Recommendation #4

We recommend the university continue to limit the use of emergency purchase reports to emergency situations as required by state policy.

Equipment Inventory

The university does not have a system to ensure inventory reconciliations are completed. State policy requires that agencies maintain management control over equipment; ensure the equipment is properly used for state sponsored activities; and ensure it is safeguarded. The policy requires that after the completion of any physical inventory, all necessary adjustments should be made to the property accounting records to accurately reflect fixed asset amounts. At June 30, 1991 the university reported more than $45 million in state owned equipment on its accounting records.

The university's policy requires that a physical count of equipment be conducted every two years. University personnel performed a physical count of equipment during the summer of 1990 but did not reconcile the equipment which was not found to the state's property accounting records. All discrepancies between the count and the records should have been reviewed or investigated by management and appropriate adjustments should have been recorded on the property accounting records.

Between physical counts the university requires that a property coordinator send an inventory listing to each of the department heads, deans, directors, and other university administrators. Personnel are required by university management to certify all of the equipment assigned to their area of responsibility exists and is located in their respective area. The purpose of the certification is to establish management control and safeguard the state's equipment. However, the property coordinator does not know which equipment certifications were returned and which were not. There is no system in place to reconcile certification forms sent to the various university administrators to those signed and returned to the property coordinator. Without such a reconciliation, the university personnel cannot ensure they accounted for all the equipment.

Recommendation #5

We recommend the university ensure physical inventory reconciliations are completed as required by state accounting policy.

Accounting Issues

State law requires transactions entered on the state's accounting system be in accordance with Generally Accepted Accounting Principles (GAAP). The Accounting Bureau of the Department of Administration (DofA) issues accounting policies to ensure state accounting records contain information presented in accordance with GAAP. We noted several instances where university personnel did not record transactions in compliance with applicable state accounting policy.

Improper Revenue and Expenditure Abatements

During fiscal years 1989-90 and 1990-91, the university improperly abated six revenue and expenditure transactions amounting to $624,989. An abatement is a transaction that reduces revenue or expenditure balances. State policy allows agencies to record abatements only to correct accounting errors.

We noted five improper abatements occurred in the Designated Fund and the Restricted Fund when the university recorded the sale of equipment and cattle. The university improperly reduced its expenditures after the sale, rather than recording revenue. In another instance the university improperly recorded a payment for student health insurance premiums as a reduction of revenue in its Designated Fund, rather than as an expenditure. As a result of these errors, revenue and expenditures are misstated on the state's financial records as shown in Table 2.

Table 2

Schedule of Improper Abatements

Fiscal Year	Fund	Revenue and Expenditure Understatement
1989-90	Restricted Fund	$50,449
1990-91	Designated Fund	$478,576
	Restricted Fund	7,614
	Unexpended Plant Fund	88,350

Source: Compiled by the Office of the Legislative Auditor

University personnel indicated the errors occurred for various reasons including transactions not processed through the normal control cycle, and university personnel misinterpreting state accounting policy.

Recommendation #6

We recommend the university properly record revenue and expenditures in accordance with state accounting policy.

Prior Year Expenditure Adjustments

In fiscal year 1989-90, the university improperly recorded prior year expenditure adjustments. As a result, it reduced prior year expenditures in the Designated Fund and increased prior year expenditures in the General Operating Fund. The error occurred when the university, based on a directive from the Commissioner of Higher Education, moved money from the general operations account to the Designated Fund to eliminate negative fund balances. University officials indicated the deficit balances occurred over the past decade because the revenue in the accounts was almost always less than the expenditures. Rather than recording a transfer of money to the negative accounts, as the commissioner suggested in his directive, the university reduced prior year expenditures in its General Operating Fund.

State policy only allows prior year expenditure adjustments when a transaction involves an error in the prior year accrual process or when the university discovers an expenditure relating to a prior year that was inadvertently left out of the accrual process. Since the university made the decision in fiscal year 1989-90 to provide an influx of cash to the accounting entities with a negative fund balance, and the intent was not to correct a prior year accrual, the university should have recorded a transfer of funds rather than a prior year expenditure adjustment. The error causes a misstatement of prior year expenditure adjustments and transfers in fiscal year 1989-90 amounting to $265,138.

University personnel indicated the deficit fund balances have occurred over the past ten years or more. They indicated that since the deficit fund balances were caused by entities receiving less in revenues than the entities expended, any deficit could have then been avoided if the university would have recorded these expenditures in the General Operating Fund rather than in the Designated Fund. However, since prior year expenditure adjustments are only allowed by state accounting policy to correct errors in accruals for the preceding fiscal year, the use of the adjustment was not appropriate to correct management decisions occurring over the past ten years.

Recommendation #7

We recommend the university properly use the prior year expenditure control accounts.

Advance Ticket Sales

The university sometimes records revenue for athletic advance ticket sales before the revenue is earned. Advance ticket sales represent ticket sales for athletic or other events in the fiscal year prior to the event. Generally accepted accounting principles require the university to record revenue in the fiscal year in which it is earned. The university should record the advance ticket sales receipts as deferred revenue rather than as revenue.

As a result, the revenue recorded in the Designated Fund is overstated by $95,214 and $19,571 for fiscal years 1989-90 and 1990-91, respectively. Deferred revenues are understated by the same amounts. The university should record revenue when it is earned in accordance with state policy.

Recommendation #8

We recommend the university record revenue collected for advance ticket sales when it is earned.

Compliance with Federal Regulations

The university receives federal financial assistance from several federal departments. We performed tests to determine the university's compliance with federal regulations applicable to programs. We identified several concerns which are discussed in the following five report sections.

Federal Property Records

The university uses its Financial Records System (FRS) to manage and account for its capital equipment, which totalled $45,232,213 at June 30, 1991. The system contains the detail records to support equipment amounts recorded on the state's Property Accountability Management System (PAMS) and the Statewide Budgeting and Accounting System (SBAS). The FRS equipment records maintained by the university do not identify equipment purchased partially with federal funds or equipment purchased with state funds used to match federal grants.

Federal regulations, OMB Circular A-110 (Attachment N), require the university to maintain property records to identify equipment purchased, in part or in whole, with federal funds. The property records should also identify the source of the property including the specific grant or other agreement numbers and the percent of federal participation in the equipment's cost. If the required information is maintained, federal regulations allow state agencies to include certain eligible equipment costs in its indirect cost calculation. Equipment purchased in whole or in part with federal funds or used as match for federally sponsored projects is not allowable and must be excluded from the equipment base used by the university in its indirect cost calculation.

Since the university does not adequately identify equipment purchased partially with federal funds or equipment used to match federal grants on its records, it cannot document the allowability of the equipment portion of its indirect cost rate. This could result in less indirect costs being recovered by the university. Grant and contracts personnel stated the property control records are not sufficient, and it would take considerable time and effort to determine the exact amount of equipment which in the past was purchased partially with federal funds and equipment purchased with state funds and used to match federal grants.

The university should negotiate with the U.S. Department of Health and Human Services Division of Cost Allocation to determine the appropriate disposition for equipment included in the indirect cost plan from prior years. To comply with the federal

regulation and to ensure continued receipt of indirect cost revenue, the university should begin to identify on the property records equipment partially purchased with federal funds. It should also identify equipment purchased with state funds and used as match for federal grants.

Recommendation #9

We recommend the university identify on its property accounting system equipment used as match for federal grants and equipment purchased in part with federal funds.

Matching System

The university does not have a procedure to ensure compliance with federal matching requirements. Federal regulations, OMB Circular A-110 (attachment E), require that all contributions, both cash and in kind, shall be accepted as part of the recipient's cost sharing and matching requirement only if they are verifiable from the recipient's accounting records.

We noted the university's procedures for monitoring grant match requirements does not include a provision to ensure that all funds used to match one federal grant are not used a second time to match another federal grant. Because the accounting records do not tie match expenditures to a specific federal grant, the opportunity for use of the same expenditure to match two or more federal grants exists. Thus, the match is not verifiable as required by federal regulations. Grants and contracts personnel indicated that during the audit period they did have a mechanism in place to ensure compliance with the federal regulation for personal service expenditures, but the system did not ensure compliance for all other types of expenditures.

We reported a similar concern in the prior audit report. University officials indicated the university established a subsystem as of July 1, 1991 which identifies each grant that requires a match and documents the expenditures used as matching funds. To

ensure compliance with federal matching requirements, this subsystem must be supported by and reconciled to the accounting records to document that expenditures are used only once to match federal grants.

Recommendation #10

We recommend the university establish a procedure to verify that all expenditures are used only once as match for federal programs as required by federal regulation.

Termination Leave Pool

The university does not charge federal grants for the cost of employee termination pay in accordance with federal regulations. The university established a termination leave pool to pay accrued employee vacation and sick leave benefits when research personnel, who work on sponsored projects, terminate employment. Federal regulations only allow the payment of fringe benefits such as vacation and sick leave if the costs are in proportion to the amount of time or effort actually devoted by the employees. The federal regulation also requires the university to maintain records to support the cost of all charges to federal grant programs.

The university charges grants and contracts for the estimated cost of termination benefits paid to employees who work on federally sponsored projects. The university charges each federal grant or contract 1 percent of salaries for employees on a 10-month contract, or 4 percent of salaries for employees on an annual salary. University officials said, 1 percent is charged for employees on a 10-month contract because these employees are paid for only 25 percent of their accumulated sick leave at termination, while 12-month employees are paid 25 percent of accumulated sick leave and 100 percent of vacation leave.

For these termination costs to be allowable under the regulation the university should have cost records to support rates charged

to the grants and contracts. The charges to sponsored projects should be the actual anticipated cost of the accumulated leave. University officials were not able to document whether the rate of 1 percent and 4 percent adequately recover or exceed termination leave costs.

University officials indicated the termination pool was established in 1984 to recover employee termination costs from the federal grants and contracts which generated the sick leave and vacation costs. The percentage charged to individual grants evolved over time as a combination of the amount the university personnel considered reasonable.

Recommendation #11

We recommend the university document the cost basis for termination pool charges to grants and contracts.

Change in Principal Investigator

The university notified the United States Department of Agriculture in April 1991 of a change in a grant project principal investigator that occurred in October 1990. Federal regulations require that grantees must notify the granting agency of all changes in key personnel. Notifying the grantor agency of changes in the principal investigators for a grant project could be very important to the grantor. The decision on whether to award the grant may have been based primarily on the reputation and credentials of the principal investigator. As a result, we question $37,743 of expenditures charged to the grant (CFDA #10.200) for the time period beginning when the principal investigator changed in October 1990 until notification of the change was given in April 1991.

Grants and contracts personnel indicated they did not know a change in principal investigators required notification as long as the work on the grant was completed. However, since this issue

was brought to the university's attention, it has established a new policy to ensure that federal sponsoring agencies are properly notified in writing of changes in principal investigators.

Recommendation #12

We recommend the university properly notify the federal granting agencies when changes occur in key personnel as required by federal regulations.

Disclosure Issue

Deficit Spending

During the current audit we noted three instances where the university spent moneys for grant programs prior to receiving the funding for those programs. The three examples resulted in cash deficits in the Grants and Contracts (G&C) accounts. Spending resources to fund G&C programs before securing funding sources causes cash deficits, and can result in increased use of state General Fund moneys if other funding sources do not materialize.

-- First, the university spent the full amount of a grant from the National Science Foundation (NSF) CFDA #47.064 even though the university had not yet secured the necessary matching funds. As a result the grant account has a cash deficit of approximately $22,000. G&C personnel indicated that several other sources are available to provide matching funds. However, the sources have not yet been identified.

-- Second, the university has not received a $1 million state match promised by the Governor in June 1989 to secure a $7.5 million grant to the university from NSF (CFDA #47.069). As of September 1, 1991 the university spent $1,537,946 of the federal funds without having the required matching funds. As a result the account for this grant has a cash deficit of $224,015. G&C personnel stated the Governor's promise for funds was adequate to begin work on the grant project in 1990. As the project continues the university is providing the required match through deficit spending in anticipation of receiving funding from the Montana Science and Technology Alliance. As of April 1, 1992, this funding has not been received by the university.

-- Finally, the university overspent a grant by $1,470 without receiving prior approval from the grantor agency to exceed the authorized amount of the grant.

In the prior audit report we noted the university's management controls were not adequate to prevent deficit spending. During the current audit we noted improvements in the control system; however, the examples discussed above indicate continued improvement is needed to strengthen its financial management. Because the university is making improvements in addressing this issue, we make no recommendation at this time.

Independent Auditor's Report & University Financial Statements

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued on Montana State University's financial statements is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the amounts presented in the financial statements.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

GISLATIVE AUDITOR:
SCOTT A. SEACAT

GAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University as of June 30, 1991, and the related the Statement of Changes in Fund Balances and Statement of Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years ended June 30, 1991. These financial statements are the responsibility of Montana State University management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University as of June 30, 1991, the changes in its fund balances and the current funds revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

As discussed in note 1 to the financial statements, Montana State University combined the statements for the Montana Agricultural Experiment Station, the Montana Extension Service, and the university. Prior to July 1, 1989 these entities presented separate financial statements.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

February 7, 1992

MONTANA STATE UNIVERSITY
BALANCE SHEET
June 30, 1991

ASSETS

CURRENT FUNDS:	
Unrestricted:	
General operating:	
Cash	$ 4,692,042
Accounts receivable	686,088
Due from other fund groups	1,728,973
Investments (note 3)	542,000
Total general operating	7,649,103
Designated:	
Cash	2,704,250
Accounts receivable	328,113
Due from other fund groups	708,061
Investments (note 3)	282,900
Inventories	497,184
Total designated	4,520,508
Auxiliary enterprises:	
Cash	1,320,014
Accounts receivable	5,678
Due from other fund groups	52,472
Investments (note 3)	1,600,500
Inventories	459,325
Total auxiliary enterprises	3,437,989
Total unrestricted	15,607,600
Restricted:	
Cash	288,398
Accounts receivable	4,446,101
Due from other fund groups	76,252
Investments (note 3)	418,800
Total restricted	5,229,551
Total current funds	$20,837,151
STUDENT LOAN FUNDS:	
Cash	$ 109,416
Loans receivable - less allowance for bad debts	10,039,222
Accounts receivable	4,364
Investments (note 3)	476,700
Total student loan funds	$10,629,702

See notes to financial statements.

MONTANA STATE UNIVERSITY
Balance Sheet (Cont.)

LIABILITIES AND FUND BALANCES

CURRENT FUNDS		
Unrestricted:		
General operating:		
Accrued payroll		$ 3,729,674
Accounts payable and accrued liabilities		478,667
Due to other fund groups		1,597,468
Deposits		41,563
Deferred revenue		541,119
Compensated absences payable (note 6)		6,387,750
Fund balance (note 1)		(5,127,138)
Total general operating		7,649,103
Designated:		
Accrued payroll		542,544
Accounts payable and accrued liabilities		857,555
Due to other fund groups		316,383
Compensated absences payable (note 6)		1,313,742
Fund balance (note 1)		1,490,284
Total designated		4,520,508
Auxiliary enterprises:		
Accrued payroll		397,053
Accounts payable and accrued liabilities		152,404
Deposits		281,318
Deferred revenue		50,650
Due to other fund groups		200,923
Compensated absences payable (note 6)		422,503
Fund balance		1,933,138
Total auxiliary enterprises		3,437,989
Total unrestricted		15,607,600
Restricted:		
Accrued payroll		773,129
Accounts payable and accrued liabilities		367,714
Due to other fund groups		1,477,297
Deferred revenue		1,762,572
Fund balance		848,839
Total restricted		5,229,551
Total current funds		$20,837,151
STUDENT LOAN FUNDS:		
Accounts payable and accrued liabilities		$ 554
Fund balances:		
U.S. Government grants refundable	$9,488,151	
University funds	1,054,239	
Private gifts	86,758	10,629,148
Total student loan funds		$10,629,702

See notes to financial statements.

MONTANA STATE UNIVERSITY
BALANCE SHEET
June 30, 1991

ASSETS

ENDOWMENT FUNDS:	
Cash	$ 1,469
Accounts receivable	116
Investments (note 3)	398,800
Total endowment funds	$ 400,385
PLANT FUNDS:	
Unexpended:	
Cash	$ 1,223,770
Accounts receivable	13,748
Due from other fund groups	150,417
Investments (note 3)	935,699
Construction advances to state	48,004
Total unexpended	2,371,638
Renewals and replacements:	
Cash	852,844
Due from Other Fund Groups	68,763
Investments (note 3)	314,300
Total renewals and replacements	1,235,907
Retirement of indebtedness:	
Cash	1,969,947
Accounts receivable	446,080
Due from other fund groups	1,129
Investments (note 3)	6,235,837
Total retirement of indebtedness	8,652,993
Investment in plant:	
Land and land improvements	4,192,954
Buildings (including construction in progress)	102,779,749
Equipment	45,348,361
Livestock	2,074,390
Library books	20,293,811
Total investment in plant	174,689,265
Total plant funds	$186,949,803
AGENCY FUNDS:	
Cash	$ 491,709
Accounts receivable	1,662,593
Due from other fund groups	1,242,044
Investments (note 3)	178,600
Total agency funds	$ 3,574,946

See notes to financial statements.

MONTANA STATE UNIVERSITY
Balance Sheet (Cont.)

LIABILITIES AND FUND BALANCES

ENDOWMENT FUNDS:	
Due from other fund groups	$ 354
Fund balance	400,031
Total endowment funds	$ 400,385
PLANT FUNDS:	
Unexpended:	
Accounts payable and accrued expenditures	$ 168,802
Due to other fund groups	41,901
Bonds payable (note 4)	942,610
Fund balance	1,218,325
Total unexpended	2,371,638
Renewals and replacements:	
Accounts payable and accrued expenditures	45,037
Due from other fund groups	41,528
Fund balance	1,149,342
Total renewals and replacements	1,235,907
Retirement of indebtedness:	
Accounts payable and accrued expenditures	427,299
Due to other fund groups	20,000
Fund balance	8,205,694
Total retirement of indebtedness	8,652,993
Investment in plant:	
Bonds payable (note 4)	39,857,390
Other payables: leases	563,957
Net investment in plant	134,267,918
Total investment in plant	174,689,265
Total plant funds	$186,949,803
AGENCY FUNDS:	
Accrued payroll	$ 16,301
Accounts payable and accrued liabilities	1,140,956
Due to other fund groups	320,853
Deposits held in custody for others	2,096,836
Total agency funds	$ 3,574,946

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1991

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenue and other additions:										
Current funds revenue	$64,703,001	$11,213,133	$14,725,655	$27,219,913						
Federal capital contribution					$ 265,563		$ 219,480			
University capital contribution					30,421	$ 364			$1,100,653	
Private capital contribution					2,000		350,482	$ 55,952	685,314	
Interest on loans receivable					206,593	1,173	126,835		651,007	$ 786,136
Student fees					34,578					
Investment income							148,726			5,229,931
Land grant income (note 2)										
Debt retirement (note 4)								14,259	596,808	
Transfer to bond liability							12,627	177,745	341,162	
Expended for plant facilities (including $4,945,068 charged to current funds)							857,930	247,956	3,374,944	6,016,067
Activities rental income					539,155	1,537				
Other										
Total revenue and other additions	64,703,001	11,213,133	14,725,655	27,219,913						
Expenditures and other deductions:					24,611					
Current funds expenditures	64,515,573	10,100,263	12,118,037	26,929,863	3,534					
Loan cancellations							1,948,453	1,360,120	680,000	
Refunded to grantors									3,052,096	148,726
Expended for plant facilities (including $1,967,087 non-capital expenditures)										397,658
Debt retirement (note 4)									45,010	
Interest on debt									3,777,106	546,384
Transfer of bond liability							1,948,453	1,360,120		
Leases					28,145					
Other										
Total expenditures and other deductions	64,515,573	10,100,263	12,118,037	26,929,863						

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES (Continued)
YEAR ENDED JUNE 30, 1991

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
ers amount funds - additions										
ctions):										
tory:										
fund groups	$ (3,565)	$(67,850)	$(2,663,000)	-	$ 3,565	-	$ 364,650	-	$2,366,200	-
tary:										
al Operating-net	-	-	-	-	-	-	150,000	$ 65,000	-	
gnated-net	-	-	-	-	-	-	387,773	8,500	(195,000)	
liary enterprises-net	-	-	-	-	-	-	17,497	299,200	(156,100)	-
ent:	-	-	-	-	-	-	(78,543)	-	-	
pended plant-net	(150,000)	(387,773)	(17,497)	-	-	$ 78,543	-	-	(158,874)	
r and replacement-net	(65,000)	(8,500)	(299,200)		-	-	-	-	(745,000)	-
ement of debt-net	-	195,000	156,100	-	-	-	158,874	745,000	-	-
otal transfers	(218,565)	(269,123)	(2,823,597)	-	3,565	78,543	1,000,251	1,117,700	1,111,226	-
crease (decrease) in										
balance	(31,137)	843,747	(215,979)	$ 290,050	514,575	80,080	(90,272)	5,536	709,066	$ 5,449,683
lances at beginning of										
as previously reported	(4,565,597)	1,042,528	2,202,576	47,608	10,105,396	319,951	1,305,280	1,144,275	7,502,354	128,554,419
ents:										
r year revenues	30,684	77,127	12,468	(128,008)	8,541	-	11	2,500	(5,724)	
r year expenditures	(1,241)	(249,233)	(19,576)	632,030	636	-	3,306	(3,049)	-	-
ensated absences payable	(529,496)	(230,706)	(46,351)	-	-	-	-	-	-	-
(note 1)	(30,351)	6,821	-	7,159	-	-	-	-	-	243,816
otal adjustments	(530,404)	(395,991)	(53,459)	511,181	9,177	-	3,317	(469)	(5,724)	243,816
lances at beginning of										
as adjusted	(5,096,001)	646,537	2,149,117	558,789	10,114,573	319,951	1,306,597	1,143,806	7,496,630	128,798,235
lances at end of year	$(5,127,138)	$ 1,490,284	$ 1,933,138	$ 848,839	$10,629,148	$400,031	$ 1,218,325	$1,149,342	$8,205,694	$134,247,918

es to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1990

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
enue and other additions:										
rrent funds revenue	$61,058,138	$10,218,995	$14,110,173	$24,736,445	-	-	-	-	-	-
deral capital contribution	-	-	-	-	$ 378,443	-	-	-	-	-
iversity capital contribution	-	-	-	-	60,282	-	-	-	-	-
ivate capital contribution	-	-	-	-	2,000	$ 217	$ 25,000	-	-	-
terest on loans receivable	-	-	-	-	206,203	-	-	-	-	-
udent fees	-	-	-	-	-	-	349,908	-	$1,075,227	-
vestment income	-	-	-	-	18,401	1,054	141,581	$ 87,068	655,359	-
nd grant income (note 2)	-	-	-	-	-	-	-	-	596,278	-
bt retirement (note 4)	-	-	-	-	-	-	-	-	-	$ 635,000
ansfer to bond liability	-	-	-	-	-	-	39,296	-	-	-
pended for plant facilities including $4,351,690 charged o current funds)	-	-	-	-	-	-	-	-	-	5,031,424
tivities rental income	-	-	-	-	-	-	-	6,900	596,471	-
ses paid	-	-	-	-	-	-	-	-	-	1,374
her	-	-	-	-	13,729	-	53,035	-	294,274	-
Total revenue and other additions	61,058,138	10,218,995	14,110,173	24,736,445	679,058	1,271	608,820	93,968	3,217,609	5,687,798
enditures and other deductions:										
rrent funds expenditures	60,463,998	10,057,025	11,352,527	24,808,147	-	-	-	-	-	-
an cancellations	-	-	-	-	41,613	-	-	-	-	-
funded to grantors	-	-	-	-	92	-	-	-	-	-
signed loans	-	-	-	-	26,160	-	-	-	-	-
pended for plant facilities including $1,091,685 non-capital expenditures)	-	-	-	-	-	-	1,415,853	665,190	-	-
bt retirement (note 4)	-	-	-	-	-	-	-	-	635,000	-
terest on debt	-	-	-	-	-	-	-	-	3,097,942	-
ansfer of bond liability	-	-	-	-	-	-	-	-	-	39,296
ses	-	-	-	-	-	-	-	-	-	128,846
her	-	-	-	-	-	-	-	-	44,821	-
Total expenditures and other deductions	60,463,998	10,057,025	11,352,527	24,808,147	67,865	-	1,415,853	665,190	3,777,763	168,142

notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES (Continued)
YEAR ENDED JUNE 30, 1990

	Current Funds						Plant funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan funds	Endowment and Similar funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers among funds - additions (deductions):										
Mandatory:										
All fund groups	-	-	$(2,870,492)	-	-	-	$ (425,000)	$1,443,292	$1,852,200	-
Voluntary:										
General Operating-net	-	$ 31,346	-	-	-	-	-	(2)	-	-
Designated-net	$ (31,346)	-	-	-	-	-	840	-	(210,062)	-
Auxiliary enterprises-net	-	-	-	-	-	-	64,190	80,000	(155,000)	-
Unexpended plant-net	-	(840)	(64,190)	-	-	-	-	(675,292)	(341,464)	-
Repair and replacement-net	2	-	(80,000)	-	-	-	675,292	-	-	-
Retirement of debt-net	-	210,062	155,000	-	-	-	341,463	-	-	-
Total transfers	(31,344)	240,568	(2,859,682)	-	-	-	659,785	847,998	1,145,674	-
Net increase (decrease) in fund balance	562,796	402,538	(102,036)	$ (71,702)	$ 611,193	$ 1,271	(150,248)	276,776	585,520	$ 5,499,656
Fund balances at beginning of year as previously reported	(3,858,680)	605,849	2,260,637	(95,697)	9,491,764	594,486	1,373,321	862,968	6,891,104	125,689,656
Adjustments:										
Prior year revenues	(640,793)	(92,738)	(1,787)	249,907	(466)	-	(67)	-	26,560	-
Prior year expenditures	(244,024)	128,406	(27,728)	(34,900)	488	-	82,274	4,531	(830)	-
Compensated absences payable	(384,896)	(1,527)	73,490	-	-	-	-	-	-	(2,634,893)
Other (note 1)	-	-	-	-	2,417	(275,806)	-	-	-	(3,634,893)
Total adjustments	(1,269,713)	34,141	43,975	215,007	2,439	(275,806)	82,207	4,531	25,730	(3,634,893)
Fund balances at beginning of year as adjusted	(5,128,393)	639,990	2,304,612	119,310	9,494,203	318,680	1,455,528	867,499	6,916,834	123,054,763
Fund balances at end of year	$(4,565,597)	$ 1,042,528	$ 2,202,576	$ 47,608	$10,105,396	$ 319,951	$1,305,280	$1,144,275	$7,502,354	$128,554,419

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1991

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$12,271,352	-	-	$ 2,861	$ 12,274,213
Federal appropriations	3,864,253	-	-	-	3,864,253
State appropriations	47,343,157	-	-	156,719	47,499,876
Federal grants and contracts	201,015	-	-	17,522,171	17,723,186
State grants and contracts	-	-	-	2,285,510	2,285,510
Private gifts, grants, and contracts	-	-	-	6,907,394	6,907,394
Other sources	147,312	-	-	55,208	202,520
Sales and service	875,912	$11,213,133	$14,725,655	-	26,814,700
Total revenue	64,703,001	11,213,133	14,725,655	26,929,863	117,571,652
Expenditures and mandatory transfers:					
Education and general					
Instruction	27,017,688	-	-	254,082	27,271,770
Research	9,141,969	-	-	13,423,621	22,565,590
Public service	4,205,672	-	-	4,532,634	8,738,306
Academic support	5,963,859	-	-	182,481	6,146,340
Student services	4,676,190	-	-	55,002	4,731,192
Institutional support	5,640,599	-	-	506,387	6,146,986
Operation and maintenance of plant	6,824,733	-	-	270,597	6,095,330
Scholarships and fellowships	1,244,863	-	-	7,472,873	8,717,736
Other	-	-	-	232,186	232,186
Education and general expenditures	64,515,573	-	-	26,929,863	91,445,436
Designated and auxiliary enterprises:					
Expenditures	-	10,100,263	12,118,037	-	22,218,300
Mandatory transfers	3,565	67,850	2,663,000	-	2,734,415
Total designated and auxiliary	3,565	10,168,113	14,781,037	-	24,952,715
Total expenditures and mandatory transfers	64,519,138	10,168,113	14,781,037	26,929,863	116,398,151
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenue	-	-	-	290,050	290,050
Transfers	(215,000)	(201,273)	(160,597)	-	(576,870)
Net increase (decrease) in fund balance	$ (31,137)	$ 843,747	$ (215,979)	$ 290,050	$ 886,681

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1990

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$12,015,734			$ 41,707	$ 12,057,441
Federal appropriations	3,701,941			-	3,701,941
State appropriations	43,398,024			259,228	43,657,252
Federal grants and contracts	775,369			16,102,042	16,877,411
State grants and contracts	61,109			2,150,879	2,212,078
Private gifts, grants, and contracts	185,550			6,147,130	6,332,680
Other sources	155,956	-		107,161	263,117
Sales and service	784,365	$10,218,995	$14,110,173	-	25,113,533
Total revenue	61,058,138	10,218,995	14,110,173	24,808,147	110,195,453
Expenditures and Mandatory Transfers					
Education and General					
Instruction	25,441,985			251,358	25,693,343
Research	8,699,167			10,958,528	19,657,695
Public service	3,788,273			4,241,994	8,030,267
Academic support	5,623,733			563,503	6,187,236
Student services	4,078,941			245,957	4,324,098
Institutional support	5,345,398			689,884	6,035,282
Operation and maintenance of plant	6,163,716			101,680	6,265,402
Scholarships and fellowships	1,522,787		-	7,321,176	8,843,963
Other			-	233,859	233,859
Education and general expenditures	60,663,998	-	-	24,808,147	85,272,145
Designated and auxiliary enterprises:					
Expenditures		10,057,025	11,352,527		21,409,552
Mandatory transfers	-	-	2,870,492	-	2,870,492
Total designated and auxiliary	-	10,057,025	14,223,019	-	24,280,044
Total expenditures and mandatory transfers	60,663,998	10,057,025	14,223,019	24,808,147	109,552,189
Other transfers and additions (deductions):					
Excess of restricted expenditures over receipts			-	(71,702)	(71,702)
Transfers	(31,344)	240,568	10,810	-	220,034
Net increase (decrease) in fund balance	$ 362,796	$ 402,538	$ (102,036)	$ (71,702)	$ 791,596

See notes to financial statements

1. Summary of significant accounting policies

Montana State University:

Montana State University, Montana Agricultural Experiment Station, Montana Extension Service, and the Fire Service Training School are related through common management and control; however, they are separate and distinct agencies as reported on the Statewide Budgeting and Accounting System (SBAS). They receive separate federal and state appropriations. For fiscal years 90 and 91, the financial statements of these agencies have been combined. Prior to July 1, 1989, the four agencies presented separate financial statements. Montana State University financial statements are included as a component part of the state of Montana financial statements which are prepared annually and presented in the state's comprehensive annual financial report.

Governance for the Fire Service Training School was transferred from the Board of Public Education to the Board of Regents by the 51st Legislature. The Board of Regents administratively assigned the Fire Service Training School to the Montana Extension Service effective July 1, 1990. Beginning fund balances are adjusted to include the Fire Service Training School account balances at July 1, 1990. The beginning fund balances are increased or reduced as follows: general operating fund ($30,351), designated fund $6,821, restricted fund $7,159, and investment in plant fund $110,770.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes the unfunded liability of $6,387,750 for compensated absence payable in fiscal year 91 and the $5,833,942 in fiscal year 90. An adjustment was made in fiscal year 90 to the beginning fund balance in the loan fund for the reclassification of the Deferred Fee Payment Plan ($2,417).

Fund accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements. The common characteristics of the funds contained in the various fund groups are as follows:

Current funds:

The current funds group includes economic resources expendable in performing the primary objectives of the University, i.e., Instruction, Research and Public Service. The current funds group has two basic distinct sub-groups: unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the University.

Designated - utilized for educational related service activities; these funds are separately classified in order to accumulate and distinguish the costs of specialized service function areas.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty, and staff.

Student loan funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by private and University sources with the majority of the funds being provided by the Federal Government.

Endowment funds:

Endowment funds are funds with specific restrictions negating the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant funds:

Plant funds are separated into four distinct self-balancing sub-group accounts:

Unexpended plant - utilized for acquisition of long-term institutional assets.

Renewal and replacement - utilized for long-term institutional asset maintenance.

Retirement of indebtedness - utilized for interest and debt retirement.

Investment in plant - denotes the cost of long-term institutional assets and related liabilities.

Agency fund:

This fund is used where the university acts in a custodian or fiscal agent capacity for individual students, faculty, staff, and qualified organizations.

Inventories:

Inventories, which consist mainly of food and operating supplies, are valued at cost (first-in, first-out method).

Investments:

Investments are carried at cost, which approximate market value at June 30, 1991.

Plant and equipment:

Livestock is carried at current market value with any difference from the prior year values recorded in the plant fund. Livestock is purchased and raised for experimental purposes; the revenues from livestock sales are recorded in the general operating fund, except when a breeding animal is sold and is expected to be replaced; then sales proceeds are recorded in designated funds and used for replacement as needed. Several large items (including Quonset Huts, LARRS Swine Building and the Honeywell Mainframe computer), totalling $3,016,105, were deleted from the property records during fiscal year 90 and in fiscal year 91, items deleted included portions of the DEC mainframe computer ($1,443,676).

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowances for bad debts:

Except for Deferred Fee Payment Plan entity in the general operating fund, an allowance for bad debts has not been recorded. Losses from bad debts in other funds are recorded as adjustments to revenue in the year in which they are deemed uncollectible.

Allocated for encumbrances:

- The University records encumbrances of general operating funds as expenditures in conformance with the state accounting policy.

At June 30, 1991, the University had encumbered $431,200 ($665,200 for fiscal year 90) of general operating funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

Unearned tuition and fees:

Summer school tuition and fee revenues are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

2. Land grant income

Montana State University benefits from two separate land grants. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862 and the second, under the Enabling Act of 1889, granted an additional 50,000 acres for the University.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The state of Montana, Board of Land Commissioners, administers both grants and holds all assets.

Investment income from the first and second grant is currently pledged to the retirement of indenture revenue bonds and is reported as revenue in the retirement of indebtedness fund.

3. Investments

Investments at June 30, 1990 and 1991 consist of the following:

	FY91	FY90
State of Montana short-term investment pool	$ 4,263,152	$ 5,129,300
U.S. Treasury securities, held by trustees in the entity's name	7,120,984	7,324,413
	$11,384,136	$12,453,713

The investments at June 30, 1990 and 1991 are owned by the following funds:

	FY91	FY90
Current funds:		
General Operating	$ 542,000	$ 417,000
Designated	282,900	285,800
Auxiliary enterprises	1,600,500	1,976,000
Restricted	418,800	422,500
Loan funds	476,700	477,100
Endowment funds	398,800	318,700
Plant funds:		
Unexpended plant	935,699	539,701
Renewals and replacements	314,300	739,700
Retirement of indebtedness	6,235,837	7,109,812
Agency	178,600	167,400
	$11,384,136	$12,453,713

4. Bonds payable

Revenue Bonds payable at June 30, 1991 with annual principal payments and interest rates, are as follows:

Fiscal Year	1985 B		1986 A		1987 A		Total Amount Payment
1992	$ 580,000	7.50%	0		$ 155,000	6.30%	$ 735,000
1993	625,000	7.75	0		170,000	6.50	795,000
1994	680,000	8.00	$ 110,000	6.60%	170,000	6.65	960,000
1995	735,000	8.25	155,000	6.75	185,000	6.80	1,075,000
1996	800,000	8.50	205,000	6.90	205,000	6.90	1,210,000
1997-2009	745,000	8.65	34,365,000	7.00%-7.40	915,000	7.00%-8.00	36,025,000
	$4,165,000		$34,835,000		$1,800,000		$40,800,000

Debts refunded, issued, and escrowed

Issuance of November 1, 1985 Series B Indenture:

An original issue of $6,530,000 dated November 1, 1985 consisting of fully registered bonds without coupons, 5.50 percent to 8.65 percent, principal maturing serially on November 15, 1986 through 1996, for the addition of 63,600 square feet to the Museum of the Rockies, including facilities for a planetarium, art collection, exhibits, auditoriums, classrooms, offices, storage, and preparation areas.

Issuance of August 15, 1986 Series A Indenture:

An original issue of $34,835,000 dated August 15, 1986 consisting of fully registered bonds without coupons, 6.6 percent to 7.40 percent, principal maturing serially on November 15, 1993 through 2009, for the refunding of all bonds outstanding under the October 1, 1985 and September 1, 1985 Indentures.

Issuance of June 15, 1987 Indenture:

An original issue of $2,325,000 dated June 15, 1987 consisting of fully registered bonds without coupons, 5.10 percent to 8.00 percent, principal maturing serially on January 1, 1988 through 2003, for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University.

5. Retirement plans

Full-time employees of Montana State University are all members of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), the Optional Retirement Program (ORP), Federal Employees Retirement System (FERS), or U.S. Civil Services Retirement Service (CSRS). ORP, started in January of 1988, is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Only faculty and staff with contracts under the authority of the Board of Regents may elect the TRS or the ORP. Pension Benefit Obligation is not available on an agency basis, but is available on a statewide basis from the Montana Retirement systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Montana State University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions.

TRS - This mandatory system established in 1937 and governed by Title 19, Chapter 4, MCA, provides retirement services to all persons employed as teachers or professional staff in any public elementary or secondary school, vocational-technical center or unit of the University System, who are not members of the ORP. TRS is a defined benefit plan. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times the average final compensation. Rights are vested after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

PERS - This mandatory system established in 1945 and governed by Title 19, Chapter 3, MCA, provides retirement services to substantially all public employees who are not covered by one of the other retirement plans. PERS is a defined benefit plan. Benefit eligibility is age 60 with at least 5 years of service: age 65 regardless of service: or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members rights become vested after 5 years of service.

FERS - This plan was signed into law in 1986 and is available to Federal employees joining the Extension Service staff without a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Saving Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service; minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% times the highest consecutive three-year-average salary times years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service.

	PERS	TRS	ORP	CSRS	FERS
Fiscal Year 1990-91					
Covered Payroll[1]	16,004,036	23,723,100	10,613,112	2,091,524	761,694
Total Payroll	61,314,678	61,314,678	61,314,678	61,314,678	61,314,678
Employer Contributions	1,036,191	1,769,506[2]	313,724	146,407	99,021
% of Covered Payroll	6.417	7.459	2.956	7.000	13.000
Employee Contributions	1,017,289	1,671,055	747,588	146,407	6,094
% of Covered Payroll	6.300	7.044	7.044	7.000	.800
Fiscal Year 1990-91					
Covered Payroll[1]	16,231,729	23,453,639	8,867,730	2,189,934	710,909
Total Payroll	57,671,480	57,671,480	57,671,480	57,671,480	57,671,480
Employer Contributions	1,040,435	1,756,120[2]	262,130	153,295	92,418
% of Covered Payroll	6.417	7.459	2.956	7.000	13.000
Employee Contributions	1,021,465	1,658,414	624,643	153,295	6,103
% of Covered Payroll	6.300	7.044	7.044	7.000	*
*July-November					.940
*December-June					.800

[1]Covered payroll excludes students employed under the College Workstudy program and part-time student employees.

[2]For ORP participants, a total of $477,908 or 4.503% in 1991 and $399,314 or 4.503% in 1990, was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

6. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25 percent of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

Capital projects:

As of June 30, 1991, the University has initiated construction on the following major capital projects:

Project	Authorized	Expenditures as of 6/30/91
Museum indenture project	$ 6,200,000	$ 6,196,853
1984B on campus living construction	4,592,000	3,653,028
Culbertson renovation	217,850	187,923
	$11,009,850	$10,037,804

Leases:

The University reserves the right to limit the amount of expenditures associated with lease contracts without penalty when, in the sole judgment of the University, annual funding or program changes necessitate. Capital lease agreements for various purposes and time periods total $662,796 at June 30, 1991. The annual payments are:

Fiscal Year	Principal	Interest	Total
1991-92	$156,011	$38,842	$194,853
1992-93	127,509	26,256	153,765
1993-94	100,971	17,346	118,317
1994-95	88,702	10,656	99,358
1995-96	71,529	4,582	76,111
1996 on	19,235	1,157	20,392
Total	$563,957	$98,839	$662,796

Capital lease agreements for various purposes and time periods total $298,059 at June 30, 1990. The annual payments are:

Fiscal Year	Principal	Interest	Total
1990-91	$101,852	$16,111	$117,963
1991-92	78,848	7,683	86,531
1992-93	42,304	1,630	43,934
1993-94	12,001	190	12,191
1994-95	8,753	10	8,763
1995-on	28,677	-	28,677
Total	$272,435	$25,624	$298,059

7. Student FTE

MONTANA STATE UNIVERSITY
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE YEAR ENDING JUNE 30, 1991

Quarter	Year	Undergraduate FTEs Reported[1]	Graduate FTEs Reported[2]	Total FTEs[3]
Summer	1990	1,011	369	1,380
Autumn	1990	9,198	456	9,654
Winter	1991	8,895	480	9,376
Spring	1991	8,094	509	8,603
Annual[4]	1990-91	9,066	605	9,671

MONTANA STATE UNIVERSITY
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE YEAR ENDING JUNE 30, 1990

Quarter	Year	Undergraduate FTEs Reported[1]	Graduate FTEs Reported[2]	Total FTEs[3]
Summer	1989	1,012	378	1,390
Autumn	1989	9,062	510	9,572
Winter	1990	8,774	483	9,257
Spring	1990	7,937	503	8,440
Annual[4]	1989-90	8,929	624	9,553

1 Undergraduate quarterly credit hours divided by 15.

2 Graduate quarterly credit hours divided by 12.

3 Includes both Unrestricted and Restricted funded FTEs.

4 In accordance with the policy from the Office of the Commissioner of Higher Education, annual FTE is calculated by total undergraduate credit hours divided by 45 and total graduate credit hours divided by 36.

MONTANA STATE UNIVERSITY
1893•CENTENNIAL•1993

Office of the President
103 Montana Hall
Montana State University
Bozeman, Montana 59717

Telephone 406-994-2341
FAX 406-994-2893

RECEIVED
APR 27 1992

April 24, 1992

Mr. Scott Seacat
Legislative Auditor
Capitol Complex, Room 135
Helena, MT 59620

Dear Mr. Seacat:

Attached is Montana State University's response to the Legislative audit report for the biennium ended June 30, 1991. It is clear from the audit report that the previous audit report was taken very seriously. In response to the prior report, we developed and shared with the Audit Committee, the Legislative Auditor, and the Board of Regents, a comprehensive and detailed audit action plan to address and resolve the issues and concerns raised. I am pleased to say that we have completed fully every step of the action plan, and in many cases, have gone beyond the stated goals in the plan.

Our level of commitment is evidenced by the short time frame in which we were able to complete the tasks set forth in the audit action plan. The prior audit report was released in April 1990, and the Legislative audit staff began reviewing the status of the changes in policies and procedures and action taken, in January 1991, toward the end of the current audit period. At this time, we have fully responded to the audit concerns according to our plan.

We continue our commitment to working together with you and your staff, and we appreciate the professional approach to this important task. We are proud to receive an unqualified audit opinion in this report, and we remain committed to the citizens of Montana to provide acceptable levels of accountability for our actions.

We look forward to meeting with the Audit Committee to discuss the audit report and our responses.

Sincerely,

Michael P. Malone
President

RECOMMENDATION NO. 1 -

WE RECOMMEND THE UNIVERSITY PROPERLY ACCOUNT FOR ITS DONATIONS.

RESPONSE NO. 1 -

WE CONCUR. MSU worked with the Legislative audit staff to develop acceptable procedures for handling deposits where it was unclear what the intent of the donor was. These procedures were implemented almost three years ago.

Though we erred in not following these procedures,it is our opinion that the donation in question was properly transferred to the MSU Foundation. All solicitations for the Engineering Equipment Campaign were conducted by the MSU Foundation, and all associated correspondence for the solicitation was from the MSU Foundation on MSU Foundation letterhead.

Most donors do not understand that MSU and the MSU Foundation are distinct organizations and that there is an "arm's length" relationship between the two entities. We will make every reasonable effort to determine the donor's intent. If there is any question as to who should record the donation, we will follow our established policy to ensure that State assets are properly recorded, and that donations to the MSU Foundation through MSU are properly documented.

RECOMMENDATION NO. 2 -

WE RECOMMEND THE UNIVERSITY ESTABLISH A SYSTEM TO MONITOR THE CONTRACT WITH RDI AND THE RESULTING INCOME.

RESPONSE NO. 2 -

WE CONCUR. The Vice President for Research has established an Intellectual Property Administration and Technology Transfer Officer. This person is responsible for monitoring the R.D.I. contracts and providing the guidelines necessary for the information disclosure requirements.

RECOMMENDATION NO. 3 -

WE RECOMMEND THE UNIVERSITY PROVIDE ACCURATE FEDERAL FINANCIAL ASSISTANCE INFORMATION TO THE GOVERNOR'S OFFICE.

RESPONSE NO. 3 -

WE CONCUR. We will work closely with the Governor's Office and the Commissioner of Higher Education to clarify the report and ensure that we receive complete instructions in the future. Procedures in our Grants and Contracts Office have been changed to identify pass-through Federal assistance from other State agencies or private sources. In addition, the programming error referred to in the audit report was corrected.

RECOMMENDATION NO. 4 -

WE RECOMMEND THE UNIVERSITY CONTINUE TO LIMIT THE USE OF EMERGENCY PURCHASE REPORTS TO EMERGENCY SITUATIONS AS REQUIRED BY STATE POLICY.

RESPONSE NO. 4 -

WE CONCUR. MSU has complied fully with the Audit Action Plan from the FY88-FY89 Legislative audit, and exceeded the reductions in the use of emergency purchases targeted in the Plan. The Audit Action Plan was shared with the Commissioner's Office, the Board of Regents, and the Legislative Auditor to ensure that the actions taken would adequately address the prior audit recommendations. It was also shared with the Legislative Audit Committee in June 1990 when the prior audit report was formally presented.

To demonstrate our commitment to addressing this issue, MSU reduced the number of Emergency Purchase requisitions by 314, or 50.81%, for the period January - June 1991, as compared to the same time period in 1990. Further reductions have occurred for January to March 1992, having processed only 97 Emergency Purchase requisitions, as compared to 283 for the same period in 1990, for a total reduction of 186 or 65.72%

RECOMMENDATION NO. 5 -

WE RECOMMEND THE UNIVERSITY ENSURE PHYSICAL INVENTORY RECONCILIATIONS ARE COMPLETED AS REQUIRED BY STATE ACCOUNTING POLICY.

RESPONSE NO. 5 -

WE CONCUR. The necessary procedural changes have been implemented to ensure that there is an adequate record of action taken to resolve the missing and unaccounted-for capital property. The appropriate management personnel will be directly responsible for oversight of the inventory reconciliation to the perpetual inventory records.

RECOMMENDATION NO. 6 -

WE RECOMMEND THE UNIVERSITY PROPERLY RECORD REVENUE AND EXPENDITURES IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE NO. 6 -

WE CONCUR. We have expanded our existing procedures to ensure that all deposits are adequately reviewed for correct handling and coding, in accordance with the audit recommendation. Since these transactions did involve our designated accounts, there is no negative impact on the State general fund.

RECOMMENDATION NO. 7 -

WE RECOMMEND THE UNIVERSITY PROPERLY USE THE PRIOR YEAR EXPENDITURE CONTROL ACCOUNTS.

RESPONSE NO. 7 -

WE CONCUR. We believed at the time of the transaction cited in the audit report that we were properly recording the entry. We do not anticipate future corrections for debt retirement of this nature, though we will record any future related entries as suggested by the Legislative Auditor.

RECOMMENDATION NO. 8 -

WE RECOMMEND THE UNIVERSITY RECORD REVENUE COLLECTED FOR ADVANCE TICKET SALES WHEN IT IS EARNED.

RESPONSE NO. 8 -

WE CONCUR. The advance ticket sales were initiated in order to comply with Section 17-2-107(6) MCA, which requires positive cash balances for all entities at fiscal year end. While implementation of this recommendation will still allow us to record cash, it will defer revenue recognition in the fund balance until the next fiscal year. We will have to carefully monitor the effects of complying with this recommendation and the resulting impact relative to the Regents' mandate that all entities have positive cash and fund balances at fiscal year end.

RECOMMENDATION NO. 9 -

WE RECOMMEND THE UNIVERSITY IDENTIFY ON ITS PROPERTY ACCOUNTING SYSTEM EQUIPMENT USED AS MATCH FOR FEDERAL GRANTS AND EQUIPMENT PURCHASED IN PART WITH FEDERAL FUNDS.

RESPONSE NO. 9 -

WE CONCUR. MSU already does and always has identified property purchased with State or private funds which was used as match on Federal projects, on a project by project basis.

A change has been implemented to show such matching purchases to be specifically matching equipment for Federal projects in the PAMS property records. The recently revised project close-out checklist in Grants & Contracts also requires the identification of such matching equipment for documentation purposes and for the property management records.

RECOMMENDATION NO. 10 -

WE RECOMMEND THE UNIVERSITY ESTABLISH A PROCEDURE TO VERIFY THAT ALL EXPENDITURES ARE USED ONLY ONCE AS MATCH FOR FEDERAL PROGRAMS AS REQUIRED BY FEDERAL REGULATION.

RESPONSE NO. 10 -

WE CONCUR. MSU received the previous Legislative audit report in April 1990. At that time, a commitment was made to address and resolve the audit recommendation dealing with this topic, and our Audit Action Plan was developed and presented in June 1990. At that time, the project to develop an acceptable and appropriate tracking system was initiated.

We have complied with the previous audit recommendation. However, our matching funds tracking system for operational expenses and equipment was not implemented in time to be reviewed by the Legislative audit staff for this audit period. The complexity of the issue, associated with the lack of clarity about what was specifically required, took a longer period of time to resolve than we had anticipated. The task of writing computer programs to meet this need, in conjunction with meeting other priorities of the Grants and Contract program on an on-going basis, resulted in further delaying the completion of this project until July 1991.

It should be noted that this issue deals only with concerns about operational expenses and equipment used as match on Federal projects. The soft dollar matches for personnel services (approximately 90% of our matching requirements) have traditionally been recorded in the University Time & Effort system which has frequently been audited by our private, State, and Federal auditors, and accepted by all.

The full tracking system for matching operational expenses and equipment is now operating and has been discussed with the Legislative audit staff.

RECOMMENDATION NO. 11 -

WE RECOMMEND THE UNIVERSITY DOCUMENT THE COST BASIS FOR TERMINATION POOL CHARGES TO GRANTS AND CONTRACTS.

RESPONSE NO. 11 -

WE CONCUR. The University has always maintained a complete and auditable system of records for personnel charges, including personnel record forms, payroll records, project financial reports, and Time and Effort reporting. What we are lacking is the written supporting documentation developed for the Federal Department of Health, Education, and Welfare and accepted by the Federal auditors in the early 1980's for the termination and retirement benefit pool rate structure. Despite the lack of written documentation for the charges to the pool, we have continued to follow the Federally approved methodology.

The termination and retirement benefit pool assessments are based upon the salaries charged to each sponsored project, regardless of funding source. We have historically attempted to maintain a pool of roughly 25% of the unfunded liability for compensated absences for sponsored research. We will recalculate and maintain supporting documentation for the termination and retirement benefit pool for future audit review.

RECOMMENDATION NO. 12 -

WE RECOMMEND THE UNIVERSITY PROPERLY NOTIFY THE FEDERAL GRANTING AGENCIES WHEN CHANGES OCCUR IN KEY PERSONNEL AS REQUIRED BY FEDERAL REGULATIONS.

RESPONSE NO. 12 -

WE CONCUR. Upon notification that a change in principal investigator had occurred without specific agency approval, the necessary request for written agency approval was initiated and subsequently received.

It should be noted that the decision of whether to award a grant or contract is not based primarily on the reputation and credentials of the principal investigator, as stated in the audit report. Rather, the grant proposals are subject to competitive peer review by the granting agency. Nonetheless, we recognize that compliance with the Federal regulations is of the utmost concern, and will continue to strive to ensure that such regulations are followed to the letter.

DISCLOSURE ISSUE ON DEFICIT SPENDING -

WE NOTED THREE INSTANCES WHERE THE UNIVERSITY SPENT MONEYS FOR GRANT PROGRAMS PRIOR TO RECEIVING THE FUNDING FOR THOSE PROGRAMS.

RESPONSE TO THE DISCLOSURE ISSUE -

ITEM NO. ONE - The University has until the end date of the National Science Foundation (NSF) project, August 31, 1992, to fulfill the matching obligation. Though several matching fund sources were identified at the time the NSF project was awarded, the original option did not materialize by the end of the Legislative audit period, June 30, 1991, and a deficit balance of <$22,041.97> was recorded for the project. Matching funds have been identified, which will fulfill our matching obligation.

ITEM NO. TWO - The NSF provided a five-year funded proposal to create an Engineering Research Center, based in part upon a written promise from the Governor to provide a one million dollar State match over that five-year period. MSU proceeded with the acceptance of the NSF monies and the creation of the Engineering Research Center, based upon that written commitment from the Governor. While the Governor's promise perhaps may not constitute a formal written contract in the sense that we normally deal with, we believed that the commitment was sound, and that it was reasonable and prudent to proceed with the project.

ITEM NO. THREE - The principal investigator for this project received verbal authorization from the Montana Bureau of Mines and Geology to continue this funded investigation. Subsequently, written support documentation was received and funding has been provided.